Report of the Auditor General of South Africa

Bitou Municipality

For the year ended 30 June 2012

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON BITOU MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Bitou Municipality set out on pages 3 to 77, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bitou Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of Bitou Municipality at, and for the year ended 30 June 2011.

Material losses

9. As disclosed in note 43.4 to the financial statements, the municipality suffered water losses of 16.13% or 457 665 kilolitres with a value of R174 317 during the year under review.

Material impairments

10. As disclosed in note 31 to the financial statements, material losses to the amount of R10 467 713 were reported by the municipality as a result of the impairment of irrecoverable trade receivables. A further R1 205 061 related to bad debts was written off by council.

Material under spending of the budget

11. As disclosed in note 42.3 to the financial statements, the municipality has materially underspent its capital budget by R16 129 214 (30%). The majority of the underspending relates to the NDPG project's next phase in respect of Road Transport, the construction of the swimming pool and construction of waste transfer station which did not realise in terms of sport and recreation and waste management respectively, which had been planned for the 2011/12 year and will now be rolled over to the following financial period.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The supplementary information set out on pages 78 to 83 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Material inconsistencies in other information included in the annual report

14. The draft annual report has not yet been submitted to us for review to identify any material inconsistencies that may exist between the annual report and financial statements. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I was unable to report on the usefulness and reliability of the predetermined objectives of Bitou Municipality as it was not prepared as required by or section 46 of the MSA and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

17. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

18. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP, by means of a municipal wide structure for community participation/through a forum that enhances community participation, as required by section 28 of the MSA and Local Government: Municipal planning and performance management regulations (MPPMRs) 15(1)(a)(i)..

19. The municipality did not establish a performance management system in line with the priorities, objectives, indicators and targets contained in its integrated development plan and did not clarify the roles and responsibilities of each role-player in the functioning of the system and did not determine the frequency of reporting and the lines of accountability for performance and did not relate to the municipality's performance management processes and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38 (a) of the MSA and Regulation 7(2)(c)(e)(f)(g) of the MPPMRs.

20. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

Annual financial statements and annual reports

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current provisions; employee benefits; intangible assets; impairment and certain disclosure items identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

22. The 2010/2011 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

23. The annual performance report for the financial year under review was not prepared or included in the annual report, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Expenditure management

24. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d)of the MFMA.

Audit committee

25. The performance audit committee did not make recommendations to the council in respect of the performance management system, as required by Regulation 14(4)(a)(ii) of the MPPMRs.

Internal audit

26. The internal audit unit did not audit the results of the municipality's performance measurements as part of the municipality's internal auditing process as required by section 45(1)(a) of the MSA and Regulation 14(1)(a) of the MPPMRs.

27. The internal audit unit did not assess the functionality of the performance management system; whether the performance management system complied with the requirements of the Municipal Systems Act; the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Regulation 14(1)(b)(i),(ii) and (iii) of the MPPMRs, respectively.

Conditional grants

28. The municipality did not certify to National Treasury that it made public the conditions of the (schedule 4) allocation, as required by section 11(2)(a)(ii)of the Divisions of Revenue Act No 1 of 2010 (DoRA).

29. The municipality did not submit proof of the submission of a draft performance framework submitted by 30 March 2011, the final approved performance framework by 07 June 2011, the Human Settlement and built environment performance framework, proof that the performance framework and the performance targets have been ratified by a municipal council resolution prior to receipt of its first instalment of the grant allocation, as required by the Division of Revenue Grant Framework, Gazette No.34280 (DoR Framework).

30. The municipality did not submit the 2010/11 annual reports to national departments of human settlement on or before 30 September 2011 or to National Treasury by 15 December 2011, as required by the Division of Revenue Grant Framework, Gazette No.34280.

31. The municipality did not register its master plans for bulk infrastructure with the Integrated National Electrification Programme (INEP), as required by the DoR Framework.

32. Projects were not implemented in line with the details contained in the Integrated Development Plan, as required by the DoR Framework.

33. The allocations for included in the schedules concerned were utilised for purposes other than those stipulated in the grant framework in contravention of section 15(1) of the Division of Revenue Act.

Procurement and contract management

34. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the supply chain management (SCM) policy in contravention with SCM regulation 17(b).

35. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1)(b)& 22(2).

36. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

37. Awards were made to providers who are persons in service of other state institutions, in contravention of SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

38. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).

Human resource management

39. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) MSA.

Revenue

40. Revenue received was not reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.

Asset management

41. All investments were not made in accordance with the requirements of the investment policy stipulating at least three quotations to be obtained for investments, as required by regulation 3(3) of the Municipal investment regulations.

Internal control

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the report on performance against predetermined objectives and the findings on compliance with laws and regulations included in this report.

Leadership

43. The council did not exercise adequate oversight responsibility over reporting to ensure complete and accurate reporting of predetermined objectives and over compliance with the relevant laws and regulations.

44. There was a lack of oversight responsibility to ensure the implementation of the financial management action plans and compliance with laws and regulations.

45. Ineffective HR management practices resulted in a lack of monitoring that the supply chain management officials are adequate and sufficiently skilled and that performance agreements are implemented for the municipal manager and senior managers.

Financial and performance management

46. Insufficient monitoring of the overall performance management system within the municipality resulted in non compliance with laws and regulations and the inability to submit a performance report for audit.

Governance

47. The internal audit unit did not function adequately as it did not perform its audit activities according to the approved audit plan. The performance audit committee also did not fulfil its responsibilities in matters relating to performance management as set out in legislation as it did not report the non compliance in respect of the municipality's performance management to council.

Auditor - General

Cape Town

30 November 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence